

Message Text

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ACTION EB-07

INFO OCT-01 AF-10 ARA-10 EUR-12 ISO-00 AGRE-00 CIAE-00
COME-00 INR-07 LAB-04 NSAE-00 EPG-02 SP-02 STR-04
TRSE-00 FRB-03 OMB-01 L-03 IO-13 H-01 PA-01
PRS-01 USIA-06 /088 W
-----061110 231810Z /50

R 222155Z JUN 77
FM AMEMBASSY SAN SALVADOR
TO SECSTATE WASHDC 4684
INFO AMEMBASSY ABIDJAN
AMEMBASSY BOGOTA
AMEMBASSY BRASILIA
AMEMBASSY GUATEMALA
AMEMBASSY LONDON
AMEMBASSY MANAGUA
AMEMBASSY MEXICO
AMCONSUL RIO DE JANEIRO
AMEMBASSY SAN JOSE
AMCONSUL SAO PAULO
AMEMBASSY ATANANARIVE
AMEMBASSY TEGUCIGALPA

C O N F I D E N T I A L SECTION 1 OF 2 SAN SALVADOR 2938

E.O. 11652: GDS
TUGS: ETRD, EAGR, ES
SUBJECT: COFFEE: FALLA CACERES COMMENTS ON CURRENT MARKET SITUATION

REF: STATE 136727

1. SUMMARY. EMBOFF CALLED ON DIRECTOR OF SALVADORAN COFFEE
COMPAN (COSCAFE), RICARDO FALLA CACERES, TO EXPRESS CONCERN
OVER REPORTED SALE OF SALVADORAN COFFEE TO BRAZIL.
UPSHOT IS THAT COSCAFE IS FRANKLY DEFENDING PRICE LEVEL
AND THAT FALLA BELIEVES MARKET WILL RISE CONSIDERABLY IN
SEPTEMBER-NOVEMBER PERIOD.
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2. AS INSTRUCTED REFTTEL, ECONOFF CALLED ON DIRECTOR OF
COSCAFE, RICARDO FALLA CACERES, TO EXPRESS CONCERN OVER
REPORTED BRAZILIAN PURCHASE OF SALVADORAN COFFEE. IN
RESPONSE TO POINTS RASIED REFTTEL (DECLINE IN US CONSUMPTION,
POSSIBLE LONG-TERM DAMAGE TO PRODUCER INTERESTS, VIOLATION
OF TERMS OF COFFEE AGREEMENT, AND INELIGIBILITY OF SALES

TO OTHER PRODUCER COUNTRIES TO COUNT IN QUOTA OF SELLING COUNTRY) FALL LAUNCHED INTO A LONG DISQUISITION ON COFFEE MARKET SITUATION AND TRENDS. FALL FRANKLY ADMITTED COSCAFE WAS ATTEMPTING TO DEFEND PRICE LEVEL OF COFFEE FROM MANIPULATION BY ROASTERS. MEANS, WHICH HE DID NOT CITE, PRESUMABLY INCLUDE COFFEE "SALE" TO BRAZIL AND COSCAFE LONG POSITION IN NEW YORK MARKET. ANALYZING DROP IN COFFEE PRICES WHICH HAS OCCURRED IN LAST MONTH AND ONE-HALF, FALLA CITED THREE MAJOR FACTORS: (A) TRADITIONAL SEASONAL DECLINE IN CONSUMPTION IN SUMMER MONTHS WHICH REDUCES ROASTER DAMAND; (B) HEAVY PUBLICITY STEMMING FROM BOYCOTT AND CONGRESSIONAL HEARINGS EARLY IN YEAR WHICH CONVINCED HOUSEWIVES PRICE WAS GOING HIGHER, CAUSING DEMAND AND HENCE HIGHER PRICES IN FIRST QUARTER FOLLOWED BY RAPID DECLINE IN DEMAND AS CONSUMERS BEGAN USING HOARDED STOCKS; AND (C) ROASTER MANIPULATION. WITH REGARD TO LATTER POINT, FALLA SPECULATED THAT SUCH MANIPULATION MIGHT BE DUE IN PART TO RIVALRIES AMONG ROASTERS. HE SAID TRADE RUMORS HAD IT THAT FOLGER'S, BACKED BY FINANCIAL POWER OF PROCTOR AND GAMBLE, WAS SELLING HEAVILY IN CAMPAIGN AGAINST ITS RIVAL GENERAL FOODS. FALLA LAMENTED BREAKDOWN IN COMMUNICATIONS WHICH HE SAID HAD OCCURRED IN TRADE, WHICH HAD LED PRODUCERS TO FEEL CONSUMERS HAD DECLARED "WAR". HE CITED SUDDEN CANCELLATION OF ANNUAL BATON ROUGE MEETING OF U.S. GREEN COFFEE ASSOCIATION AS EXAMPLE OF CUTTING OFF OF DIALOGUE TO WHICH HE REFERRED. IN THIS SITUATION, PRODUCERS HAVE TO DEFEND THEIR INTERESTS AS BEST THEY CAN.

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3. CITING LOCAL RUMORS THAT COSCAFE WAS BUYING HEAVILY IN FUTURES, ECONOFF ASKED WHAT FACTORS LED FALLA TO BELIEVE THAT PRICE WOULD RISE AGAIN, IN VIEW OF FIGURES ON DECLINING CONSUMPTION AND USDA PROJECTION OF 14 PERCENT INCREASE IN WORLD PRODUCTION FOR COFFEE YEAR 77/78. FALLA CLAIMED THAT CURRENT US CONSUMPTION IS UNDERESTIMATED BECAUSE OF HOARDING BY HOUSEWIVES AND ALSO SUGGESTED THAT A CONSIDERABLE QUANTITY OF COFFEE HAD BEEN SMUGGLED INTO THE U.S. FROM MEXICO. HE NOTED THAT CONSUMPTION IN THE REST OF THE WORLD SEEMS TO BE HOLDING STEADY. ADDING THAT THE US IS THE ONLY COUNTRY WHICH MAINTAINS RELIABLE CONSUMPTION FIGURES, FALLA SAID THAT WORLD CONSUMPTION IS SYSTEMATICALLY UNDERESTIMATED BECAUSE IT IS BASED ON PROJECTIONS OF ICO FIGURES GATHERED UNDER THE PRIOR COFFEE AGREEMENT WHICH DID NOT REFLECT LARGE QUANTITIES OF COFFEE EXPORTED ILLEGALLY BY EL SALVADOR AND OTHER COUNTRIES WITH INADEQUATE QUOTAS. TURNING TO THE USDA ESTIMATE AND CITING THE NATURAL TENDENCY OF GROWERS TO EXAGGERATE THEIR HEAVIEST PROJECTIONS, FALLA SAID THAT THE USDA ESTIMATE IS 6 MILLION BAGS TOO HIGH.

4. FALLA SAID THAT HE EXPECTED PRICES WOULD RISE SHARPLY

IN THE SEPTEMBER-NOVEMBER PERIOD. ASSUMING A DECLINE OF
WORLD DEMAND TO AN ANNUAL RATE OF 48 MILLION BAGS, FALLA
ARRIVED AT ESTIMATED DEMAND FOR THE ABOVE THREE MONTH
PERIOD OF 12 MILLION BAGS, DIVIDED EVENLY BETWEEN THE FOUR
MAJOR TYPES OF COFFEE. HE PROJECTS SUPPLY FOR THE
SAME PERIOD AS FOLLOWS: (MILLIONS OF BAGS)

OTHER MILDS	2.4 (INCLUDING ECUADOR AND PERU)
COLOMBIAN	2.2
BRAZILIAN	3.0
ROBUSTAS	2.0
	9.6

THIS YIELDS A 2.4 MILLION BAG DEFICIT FOR THIS PERIOD.
THIS WILL CAUSE PRICE TO RISE ALTHOUGH POSSIBLY NOT TO
LEVELS ALREADY ATTAINED.
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TRSE-00 FRB-03 OMB-01 L-03 IO-13 H-01 PA-01
PRS-01 USIA-06 /088 W
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R 222155Z JUN 77
FM AMEMBASSY SAN SALVADOR
TO SECSTATE WASHDC 4685
INFO AMEMBASSY ABIDJAN
AMEMBASSY BOGOTA
AMEMBASSY BRASILIA
AMEMBASSY GUATEMALA
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C O N F I D E N T I A L SECTION 2 OF 2 SAN SALVADOR 2938

5. REFERRING AGAIN

TO COSCAFE'S FUTURES POSITIONS, ECONOFF
ASKED IF FALLA WAS CONFIDENT THAT CONTRACTS COULD BE LIQ-
UIDATED WITHOUT PROBLEMS. EMBASSY COMMENT: IF COSCAFE HOLDS
ANY SIZEABLE FRACTION OF REPORTED 15-20 PERCENT OF OUTSTANDING
LONG POSITIONS REPORTEDLY HELD BY SALVADORAN ENTITIES IN LATTER
HALF 1976 AND MARKET CONTINUES TO FALL, COSCAFE COULD BE FACING
LOSSES ON ORDER OF TENS OF MILLIONS OF DOLLARS. FURTHER,
REPORTED \$3.6 MILLION SUIT AGAINST COMPANY BY GUIROLA FAMILY
HAD CAUSED LOCAL SPECULATION ABOUT POSSIBLE LIQUIDITY PROBLEM.
END COMMENT. FALLA EXPRESSED CONFIDENCE THAT COSCAFE COULD CON-
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TINUE TO SHIFT ITS FUTURES POSITION UNTIL MARKET RISE WOULD
ALLOW IT TO GET OUT. COSCAFE LAWYER PRESENT DURING CONVERSATION
ADVISED THAT GUIROLA SUIT DATES FROM PRIOR TO JULY, 1975 AND
IS EFFORT BY THAT FAMILY TO BREAK PRE-FROST SALE CONTRACT.

6. FINALLY,EXPRESSING CONCERN OVER CURRENT ATMOSPHERE OF
PRODUCER-CONSUMER CONFRONTATION AND REGRET THAT HIS ACTIONS
SEEMED TO DISPLEASE USG, FALLA SAID HE WOULD LIKE TO SEE AS-
SISTANT SECRETARY KATZ DURING AN UPCOMING VIST TO US. ECON-
OFF OFFERED TO ADVISE WASHINGTON OF HIS TRAVEL WHEN IT IS FIRM.

LUBENSKY

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Message Attributes

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Decaption Date: 01-Jan-1960 12:00:00 am
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Disposition Approved on Date:
Disposition Case Number: n/a
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Disposition History: n/a
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